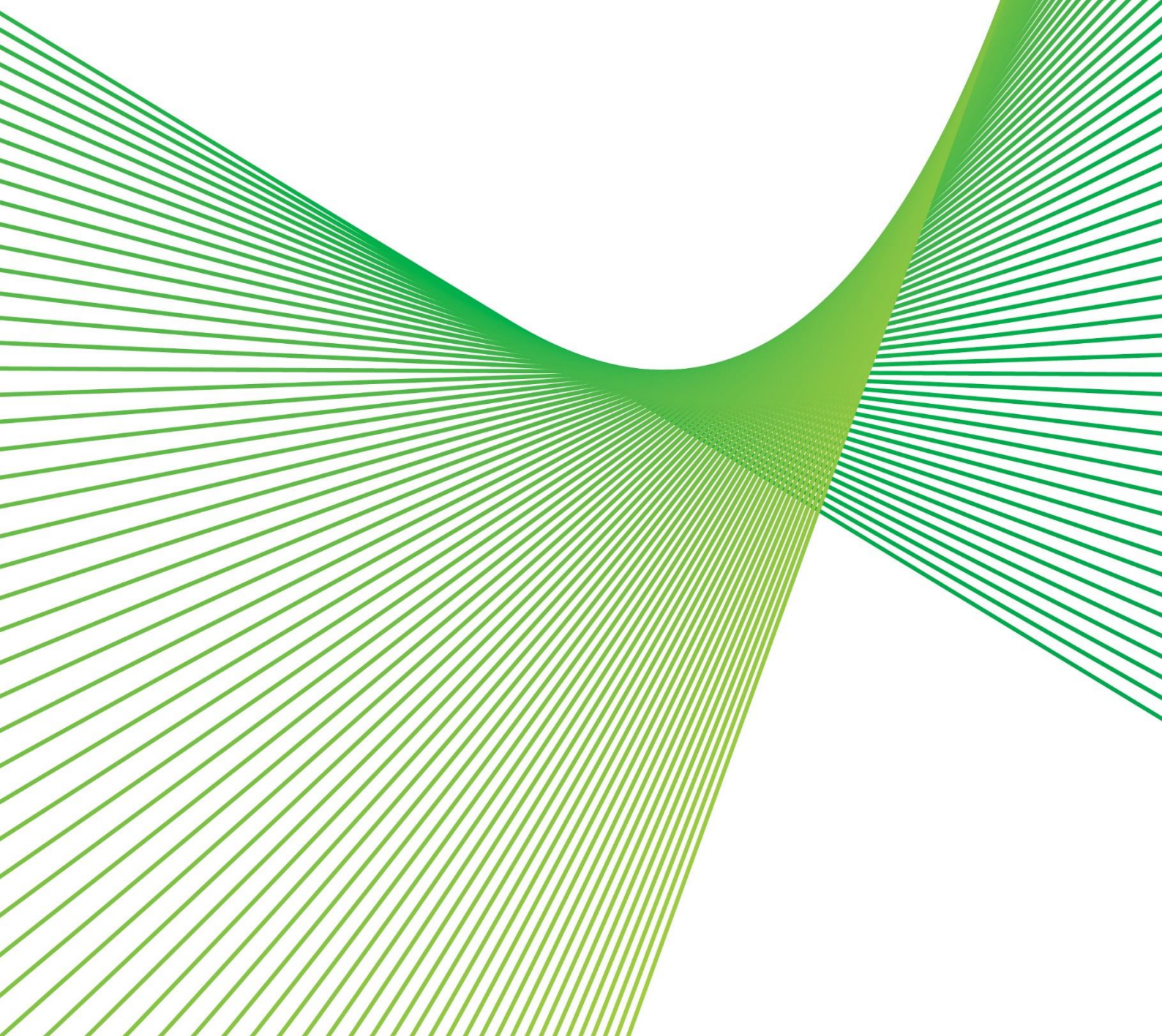


Maintaining voltage levels in Northern NSW

Notification of MCC Assessment

Region: Northern NSW

Date of issue: 20 December 2024



1. Purpose

This document has been prepared to satisfy the requirements set out in clause 5.16.4 of the NER regarding reapplication of the RIT-T for RIT-T projects which are not actionable ISP projects.

This document has been prepared to notify the AER of a material change in circumstances (namely, a material cost increase) and to propose a course of action.

Transgrid has conducted a material change in circumstances (MCC) assessment and found that although the increase in costs is material, the preferred option identified in the PACR (Option 2) remains the preferred option.

As the preferred option has not changed, Transgrid's proposed course of action is to deliver the project as proposed in the RIT-T, and not reapply all or part of the RIT-T.

It is Transgrid's understanding that this is the first case of a course of action being proposed by a RIT-T proponent in response to an MCC since the MCC rule change that commenced in October 2023 established this new process.

2. Background

On 5 March 2024, Transgrid completed the Maintaining Voltage levels in Northern NSW Regulatory Investment Test for Transmission (RIT-T). This RIT-T assessed two options:

- Option 1 – Install a 66 kV 10 MVAR reactor at Moree and a 66 kV 15 MVAR reactor at Inverell
- Option 2 – Install a 132 kV 25 MVAR reactor at Inverell

The RIT-T identified Option 2 as the preferred option. However, capital costs for both Option 1 and Option 2 have increased since completion of the RIT-T. The underlying factors driving these cost changes include significant contract cost increases and material prices increases from the RIT-T estimate and hard rock identified in the Inverell greenfield yard extension area.

The original and revised weighted Net Present Value (NPV) results relative to the base case ('do nothing') are presented below.

Assessment	Option 1 (\$m, 2023/24)	Option 2 (\$m, 2023/24)
Original	-\$5.24 million	-\$3.57
Revised	-\$7.75	-\$6.04

As a result of these cost increases, Transgrid undertook an MCC assessment to evaluate whether the change in capital cost for both options represent a change in

the preferred option. The approach and results of Transgrid's MCC assessment are attached at **Appendix A**.

3. Threshold requirements for reapplication of RIT-T

Rule 5.16 of the NER sets out the requirements and considerations for the application of the RIT-T to capital projects which are not actionable ISP projects, including circumstances where reapplication of the RIT-T may be required.

3.1 Completion date of the RIT-T analysis

Clause 5.16(z3A) provides that a RIT-T proponent is only required to consider whether a material change in circumstances has occurred if more than six months has elapsed since the later of the completion of the analysis required to apply (or re-apply) the RIT-T. As the *Maintaining Voltage in Northern NSW RIT-T* was completed in March 2024, Transgrid is required to consider whether an MCC has occurred.

3.2 Satisfaction of threshold questions

The threshold questions that enliven the question of reapplication of the RIT-T are set out in 5.16.4(z3). These questions, and Transgrid's assessment of whether they have been satisfied in this project, are set out in the table below:

Clause		Satisfied
(1)	a RIT-T proponent has published a project assessment conclusions report in respect of a RIT-T project;	Yes – published 5 March 2024
(2)	a <i>Network Service Provider</i> still wishes to undertake the <i>RIT-T project</i> to address the <i>identified need</i> ; and	Yes – Transgrid still wishes to undertake the RIT-T project to address the identified need
(3)	there has been any material change in circumstances,	Yes – cost increase

NER clause 5.16.4(z4) sets out a non-exhaustive list of circumstances that constitute an MCC. This list and Transgrid's assessment of whether they have occurred is set out in the table below:

Clause		Occurred?
(1)	a change to the key assumptions used in identifying the <i>identified need</i> described in the <i>project assessment conclusions report</i> ;	No – key assumptions underlying identified need have not changed

(2)	for a <i>RIT-T project</i> contemplated by clause 5.16.4(k)(10), one or more <i>RIT reopening triggers</i> applying to the project having been triggered; or	No – project is not one contemplated by 5.16.4(k) ¹
(3)	a change in circumstances which, in the reasonable opinion of the <i>RIT-T proponent</i> , means that the <i>preferred option</i> identified in the <i>project assessment conclusions report</i> may no longer be the <i>preferred option</i> .	Yes – cost increase of \$3.64 million to the preferred option.

The cost increase of \$3.64 million to the preferred option (Option 2) is such that Transgrid reasonably needed to consider whether the preferred option identified in the PACR may no longer be the preferred option.

3.2 Actions required of Transgrid

The threshold requirements in cl 5.16.4(z3) have been met and there has been a change in cost of the magnitude that Transgrid should reasonably consider whether the preferred option has changed. Therefore, as the RIT-T proponent Transgrid must:

Clause		Satisfied
(4)	notify the <i>AER</i> in writing of the material change in circumstances, which must also set out the nature of that material change in circumstances, any actions the <i>RIT-T proponent</i> proposes to take as a result of that material change in circumstances and the timeframes within which it proposes to complete any such actions;	This document is the written notification to the AER of the MCC. It sets out the nature of the MCC, the actions Transgrid proposes to take, and the timeframes for these actions.
(5)	provide any information necessary to support any actions the <i>RIT-T proponent</i> proposes to take, including any information necessary to demonstrate that the <i>RIT-T proponent</i> has had regard to the matters in paragraph (z4A); and	Attached at Appendix A .
(6)	take the actions (if any) approved or required by the <i>AER</i> in a determination made under paragraph (z5A) within the timeframe specified by the <i>AER</i> in its determination.	-

¹ Cl 5.16.4(k) contemplates RIT-T projects where the estimated capital cost of the proposed preferred option is greater than \$100 million (as varied in accordance with a cost threshold determination – currently \$103 million), and where AEMO is not the sole RIT-T proponent.

3.4 Results of MCC assessment

Transgrid conducted an MCC assessment to determine whether revised capital costs estimates in the order of a \$3.6 million cost increase meant the preferred option identified in the PACR (Option 2) was no longer the preferred option.

The MCC assessment found that Option 2 remains the preferred option, despite the NPV falling from -\$3.57 million to -\$6.44 million. The top-ranked option is permitted to have a negative market benefit as this RIT-T is a reliability corrective action.

4. Proposed course of action

Transgrid's proposed course of action is to not reapply the RIT-T. We believe this is justified in the circumstances because the MCC assessment confirmed that the preferred option identified in the PACR remains the preferred option. Reapplication of the RIT-T is not reasonable in the circumstances, as:

- The preferred option has not changed;
- There is no reasonable discount rate that would change the RIT-T outcome;
- The identified need has not changed;
- The project is a reliability corrective action;²
- Transgrid still wishes to undertake the project.

Transgrid's proposed course of action is to continue to deliver the project according to the preferred option identified in the RIT-T, being the installation of the 132 kV 25 MVAR reactor at Inverell.

The next steps in the delivery of the project are developing designs, ordering equipment and tendering for construction works to ensure we can meet the required need date.

Transgrid will publish a statement that the preferred option identified in the PACR remains the preferred option. The published document will include the supporting information necessary to demonstrate that Option 2 remains the preferred option. This document is attached at **Appendix A**.

5. Proposed timeframe

Transgrid proposes to undertake the next steps in the delivery of the project in accordance with the timeframes proposed in the PACR, being undertaking works between 2023/24 and 2025/26, with final commissioning of the solution in 2026/27.

² As this project is a 'reliability corrective action,' the failure to promptly undertake the RIT-T project is likely to materially affect the reliability and secure operating state of the transmission network.